# A Report on Missouri's Economic Condition

December 2004

MERIC

DEPARTMENT of ECONOMIC DEVELOPMENT

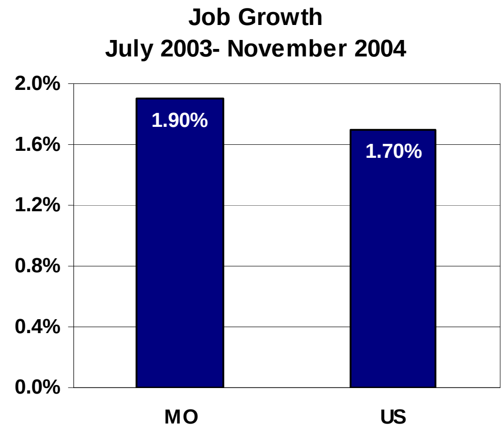
MISSOURI ECONOMIC RESEARCH & INFORMATION CENTER

# A Report on Missouri's Economic Condition

The U.S. economy has been in a recovery and expansion for three years, with the recession of 2001 having ended in November of that year. Many parts of Missouri have shown strong economic momentum throughout this period. Based on percentage changes in employment, population and income growth between 2000 and 2003 for the 881 counties in the Midwest, Missouri placed eight counties in the Top 30 performers. This is more than any other state. Pulaski, Lincoln, Christian, Dallas, Phelps, Benton, Warren, and St. Charles counties ranked in the top 30.

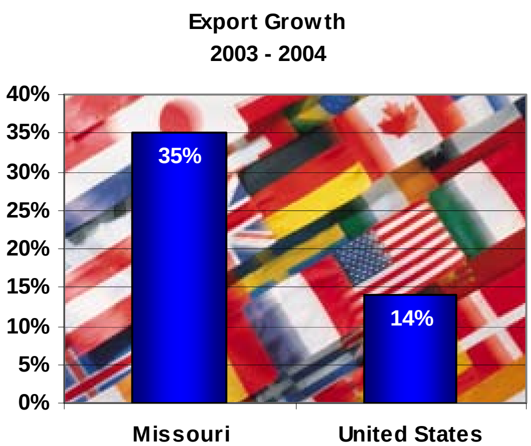
During the past year and a half, the economy has generally been stronger, both in the U.S. and in Missouri. Gathering strength in the economy has generally brought with it an improving jobs picture. Since July 2003, national employment has grown by 2,261,000 (1.7 percent), while Missouri employment is up by 50,100 jobs (1.9 percent). This strong growth in the state has served to erase most of the earlier job losses.

From January to November we have added 42,600 jobs (seasonally adjusted) ranking us 15th in the country. On a percentage basis, our growth rate is higher than the nation's growth rate.



*Source: U.S. Bureau of Labor Statistics*

The stability and growth we have seen in manufacturing jobs in Missouri is one of the reasons for our overall job growth. Between November of 2003 and November of 2004 we added 4,500 manufacturing jobs, ranking us third in the nation. In other words, during that time period we added more manufacturing jobs than all but two other states. On a percentage basis, our manufacturing job growth is more than four times the nation's rate.



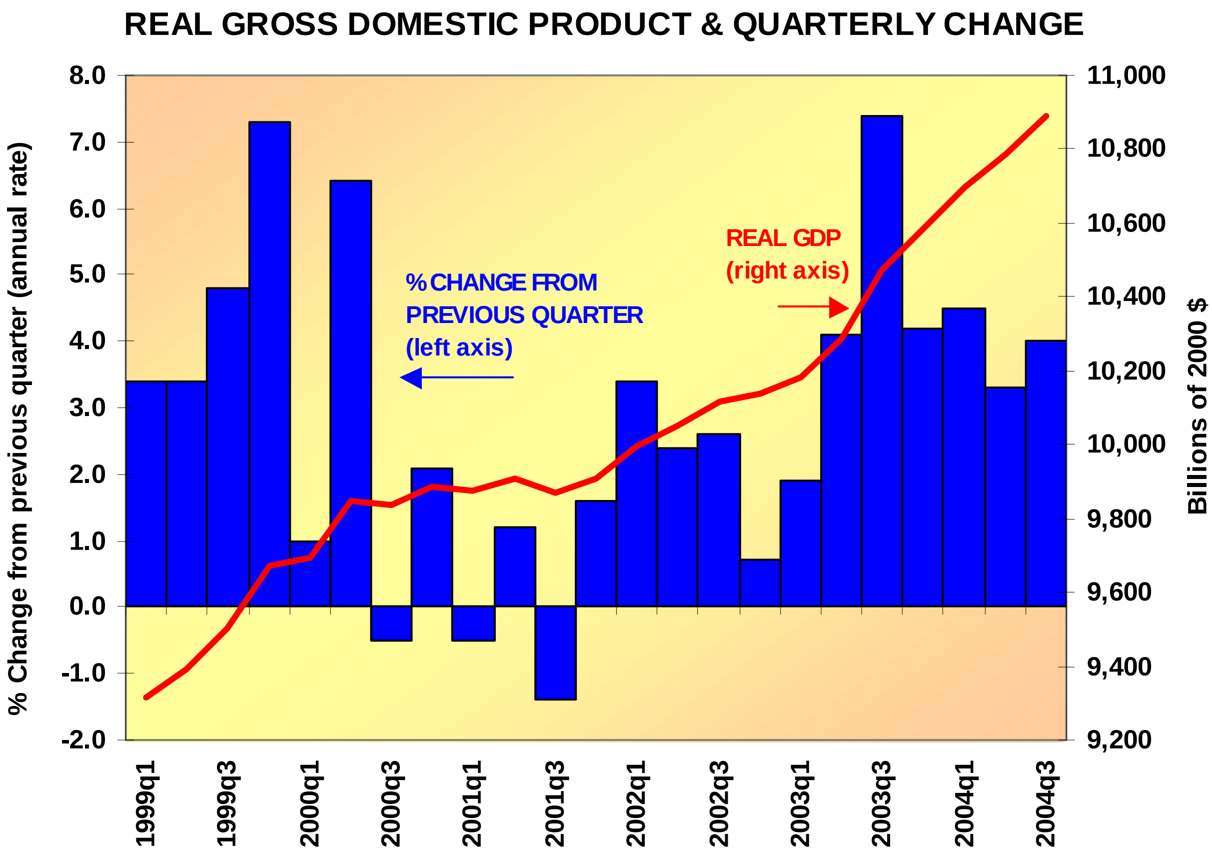
*Source: MERIC and WISER Trade database*

We have also seen extremely strong activity in exports. A recent report by the World Institute of Strategic Economic Research compared exports from the first three quarters of 2003 with the first three quarters of 2004. That comparison showed that Missouri's exports grew by 35 percent and $1.734 billion, ranking us sixth in the nation for export growth. In terms of actual dollar growth, Missouri was more than double the five states ranking ahead of us.

Indeed, these most recent economic indicators point to growing economic momentum and a strong business climate in Missouri.

## Gross Domestic Product

Gross Domestic Product (GDP) is the broadest measure of economic conditions in the U.S. Output has been expanding since the recession ended in the 4th quarter of 2001. For several quarters after the economic trough, GDP growth remained fairly slow. Although the economy never relapsed into recession, neither did it immediately "take off". It was not until the 2nd quarter of 2003 that GDP really began to grow. Since then, growth has averaged better than 4 percent, showing an overall robust economy.




*Source: U.S. Bureau of Economic Analysis*

All in all, the data in the most recent several months represent the best economic picture since the economy started to slow in the latter half of 2000. A typical economic forecast calls for 3.5 percent growth next year (annual data).[1] Although this growth in GDP would be slower than this year's, there is good news in the forecast. Employment is forecast to rise even more rapidly in 2005, contributing significantly to overall economic improvement. The stronger employment picture reflects anticipated additional hiring by businesses to meet growing demand. Heretofore, employers have been able to utilize excess capacity to increase output with a less than corresponding increase in the number of workers.

[1] Economy.com, "U.S. Macro Outlook," December 8, 2004.

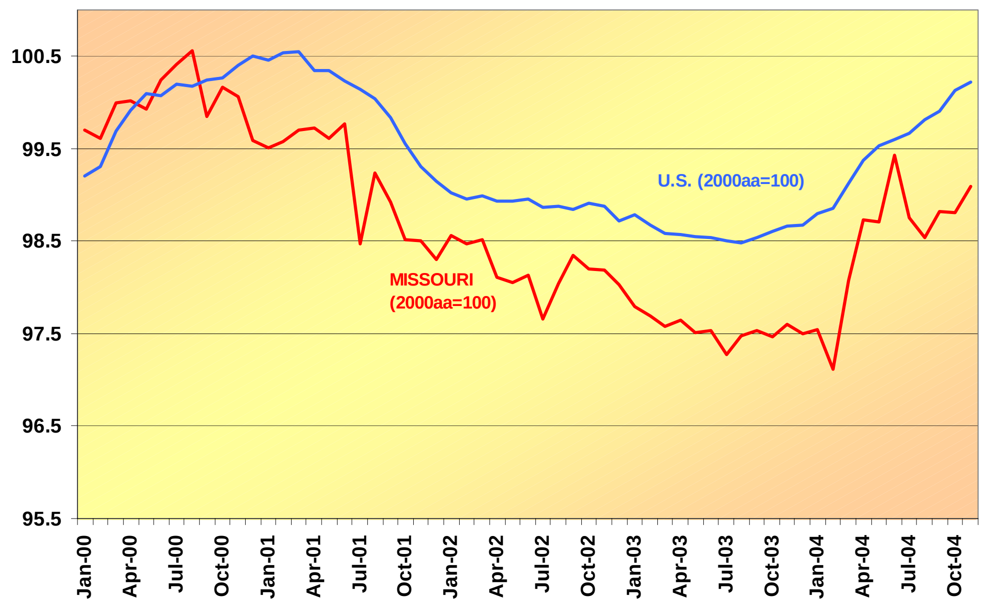
# Economic Indicators

## Employment

Payroll employment in both the U.S. and Missouri fell for a long time following the beginning of recession in March 2001. Missouri employment had actually peaked before the beginning of the recession. This earlier decline served to cause Missouri's employment to decrease relatively more than national employment, from peak to trough.

There were brief periods when employment appeared to be stabilizing in the aftermath of recession, but these did not last. More recently, employment growth has resumed and indeed accelerated in both the U.S. and Missouri. Since July 2003, national employment grew by nearly 2.3 million jobs, while Missouri employment was up by more than 50,000. Although Missouri data show a slowdown during the summer months, job growth more consistent with the overall economic growth now seems in place.

**U.S. AND MISSOURI PAYROLL EMPLOYMENT**
**Index: 2000 annual average = 100**




*Source: MERIC and U.S. Bureau of Labor Statistics*

### Index Numbers

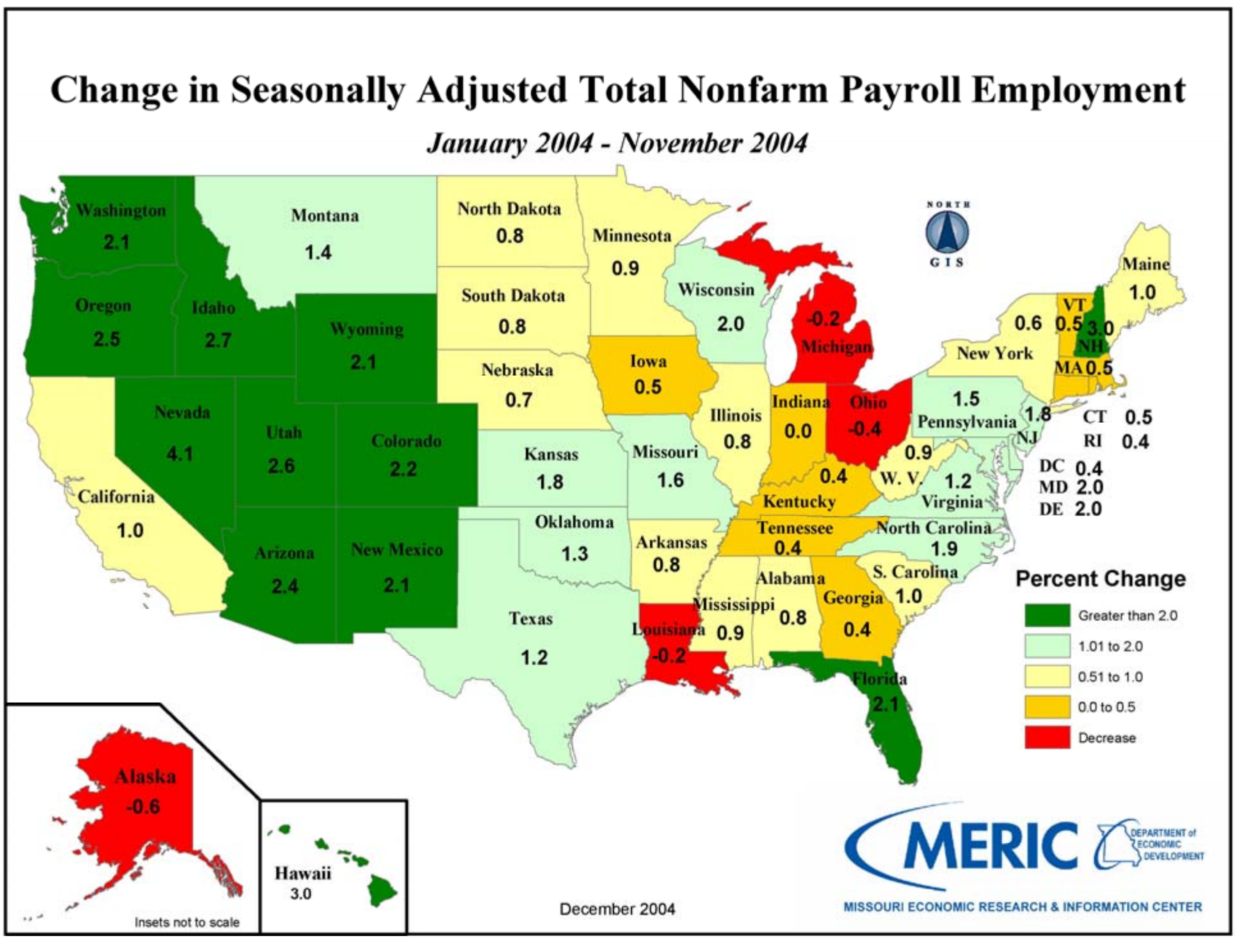
Index numbers are used to indicate relative change, particularly over time. They are especially useful when comparing values where the magnitudes are significantly different. Many measures for Missouri are roughly 1/50 the size of the corresponding national measure. As an example, showing Missouri and national population change on the same chart would not be very useful, since the Missouri line would appear to be almost flat near the horizontal axis while the national line would show more change. To better compare, a base level for each variable is arbitrarily set at 100, and values are represented as a percentage of that base value.

The previous chart shows Missouri and U.S. nonfarm payroll employment data converted to index numbers, where the annual average value of each in the year 2000 is expressed as 100. (Index numbers for each observation are calculated by dividing their actual value by the 2000 annual average and multiplying by 100.)

Comparing Missouri's employment changes over the past year to other states continues to be a valuable way to analyze our state's economic condition. There has been considerable variation in how states were affected by the recession and different shocks to the economy. Similarly, there has been considerable variation among states in how soon they were able to resume employment growth and how strong that growth was.

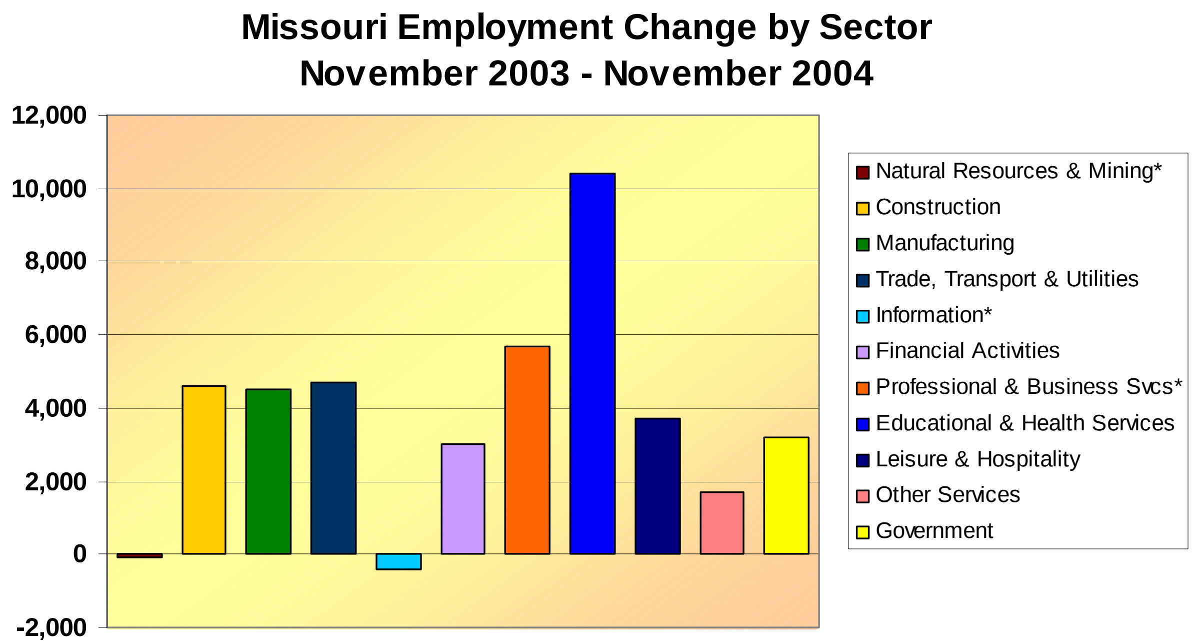
Earlier reports in this series showed varying degrees of employment decline, depending on which stages of the recession and its aftermath were being considered. Since July 2003, Missouri's total nonfarm employment has increased by 50,100 jobs, or 1.9 percent. This places Missouri 15th among the states for job growth during that period (19th for percentage growth.) U.S. employment grew by 1.7 percent in that same period from July 2003 to June 2004.

Most states have had net employment growth since the start of 2004. Missouri's employment grew by 42,600 jobs, or 1.6 percent. Its ranking among the states is the same as for the July 2003 – November 2004 period: 15th in terms of numerical growth, 19th in percentage growth.




*Source: U.S. Bureau of Labor Statistics*

In the past year, most industries in Missouri have experienced employment growth. The most rapid growth has occurred in education and health services, construction, financial services, and professional and business services. Among the broad industry groups, only information has shown weakness, with employment being pulled down by structural problems in the telecommunications sector.



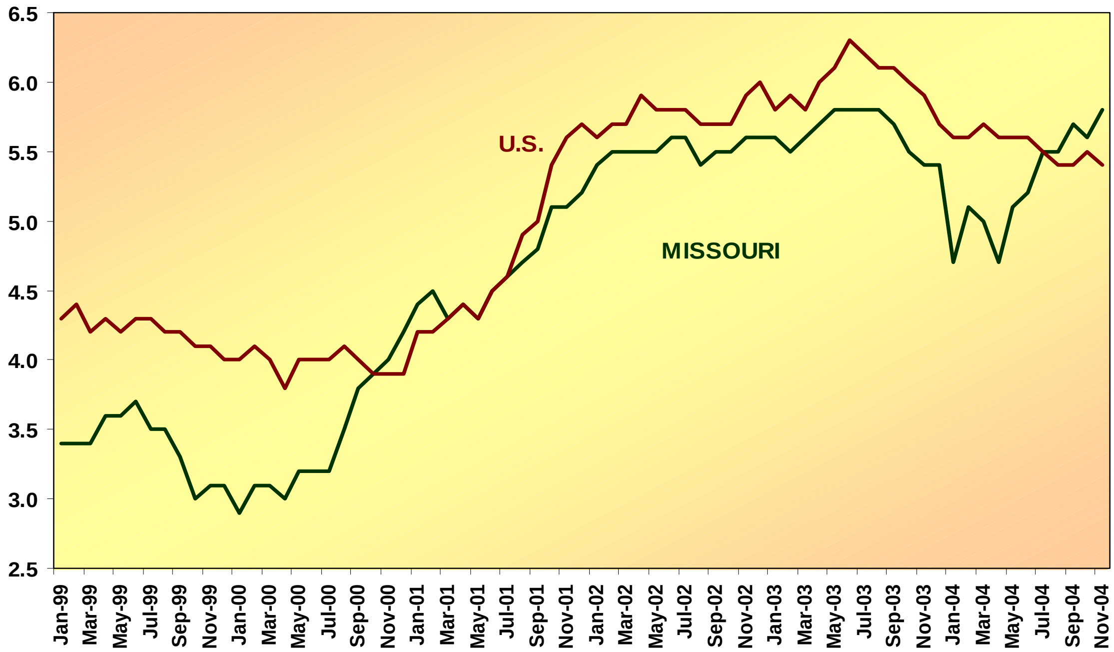

**Data in these sectors not seasonally adjusted.* *Source: MERIC and U.S. Bureau of Labor Statistics*

## Unemployment

Missouri's unemployment rate has generally been below the U.S. rate, sometimes by a half point or more. The state's rate peaked from May 2003 to August 2003 at 5.8 percent and began to edge down after August. Movements in the rate this year have been irregular. The year started with a drop to an unusually low 4.7 percent rate in January. Since April (also 4.7 percent), the rate has been moving upward, returning to 5.8 percent in November. Sometimes, unemployment can rise even when employment is growing strongly. One explanation for this phenomenon is the "encouraged worker effect." Workers who left the labor force when conditions were not promising begin to look for work again when the employment situation begins to brighten. Those entrants to the labor force who do not immediately find work are counted as unemployed.

The national rate moved upward to a peak of 6.3 percent in June 2003. It has since receded to 5.4 percent. Although national and Missouri unemployment rates are elevated compared to the very low rates reached in the late 1990s and 2000, even the peaks reached during the recession and its aftermath are low in comparison to those reached in earlier recessions. The forecasted improvement in employment in 2005 should serve to bring unemployment down, even with a growing labor force.

**U.S. AND MISSOURI UNEMPLOYMENT RATE, SEASONALLY ADJUSTED**

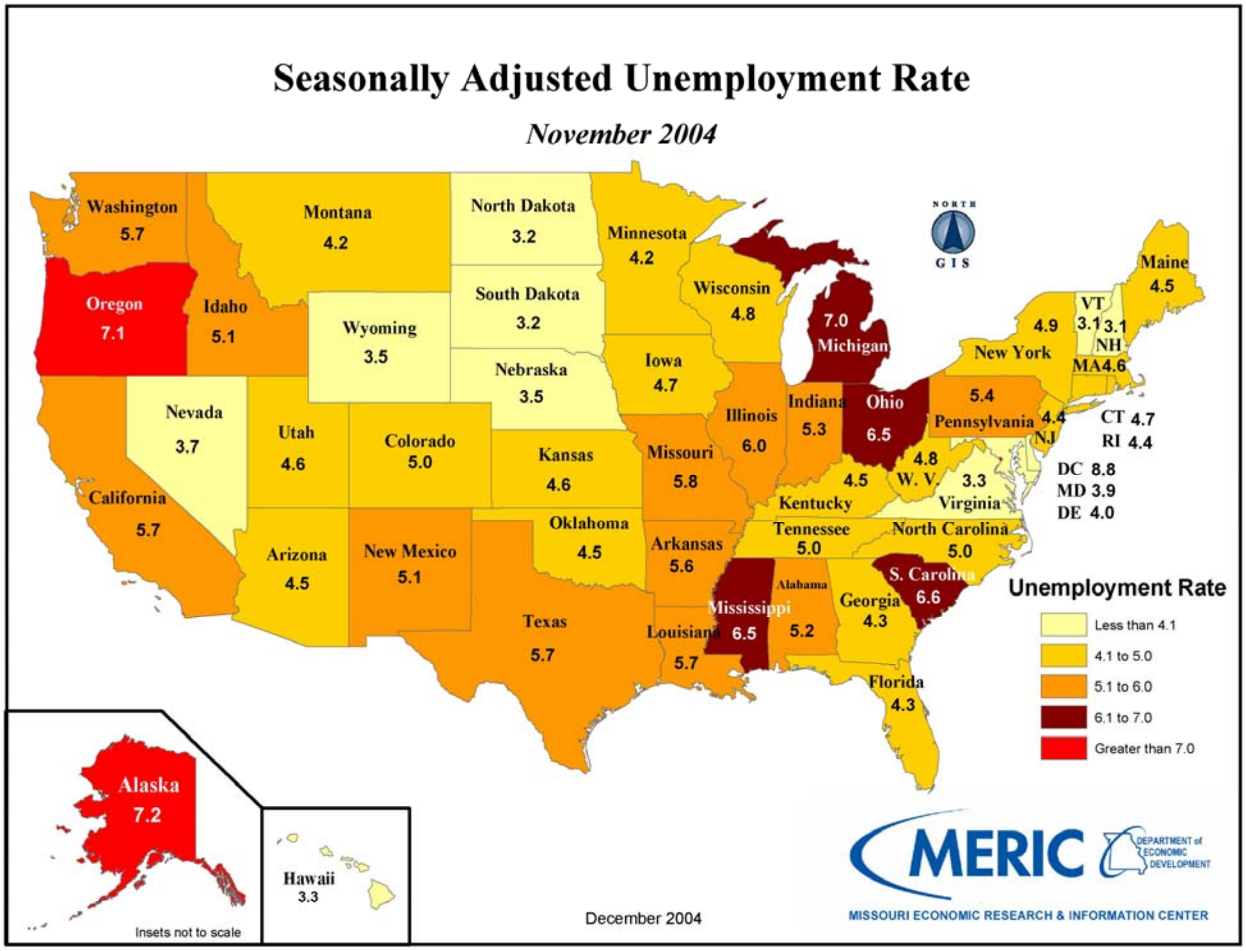



*Source: U.S. Bureau of Labor Statistics*

**Unemployment Rate**

The unemployment rate is calculated by dividing the estimated number of unemployed people in the state by the civilian labor force. The result expresses unemployment as a percentage of the labor force.

Labor force and unemployment estimates for states come from a cooperative statistical program between the U.S. Department of Labor's Bureau of Labor Statistics (BLS) and the various states. (MERIC is the BLS affiliate in Missouri.) State data are developed using statistical models. The inputs to these models include monthly state-specific data from the Current Population Survey (CPS – a nationwide survey of households), Current Employment Statistics program (CES – survey of employers), and claims data from the unemployment insurance system.



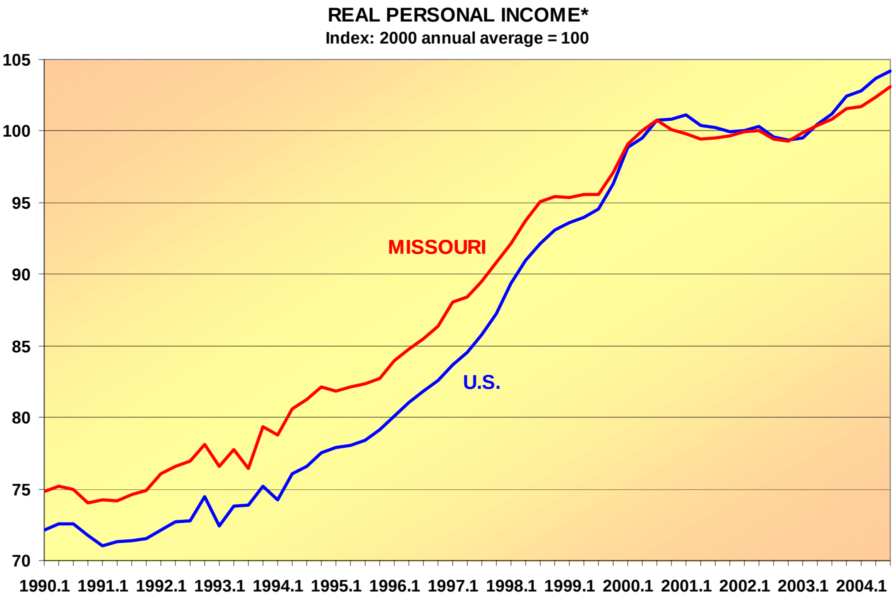

*Source: U.S. Bureau of Labor Statistics*

## Personal Income

Personal income is a broad measure of economic activity and one for which relatively current data are available, especially at the national level.

Personal income includes earnings; property income such as dividends, interest, and rent; and transfer payments, such as retirement, unemployment insurance, and various other benefit payments.  It is a measure of income that is available for spending and is seen as an indicator of the economic well-being of the residents of a state.  Earnings and wages make up the largest portion of personal income.

To show the vastly different levels of total personal income for the U.S. and Missouri on the same chart, these data have been converted to index numbers.

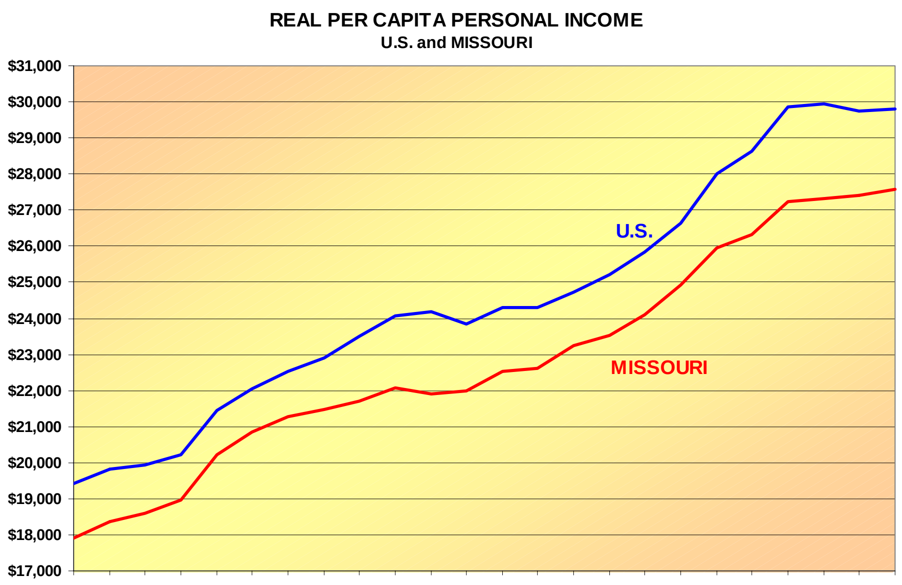



*Less transfer payments. 2000 dollars.

*Source: MERIC and U.S. Bureau of Economic Analysis*

The above chart shows a comparison of Missouri and U.S. growth in real personal income (less transfer payments). The year 2000 has been selected as the base year. In the period since 2000 (generally reflecting the recession and a short period before, as well as the more recent recovery), real personal income was essentially flat in both Missouri and the U.S. However, the most recent quarters have shown some steady growth. Missouri's personal income has generally moved similarly to that of the nation.

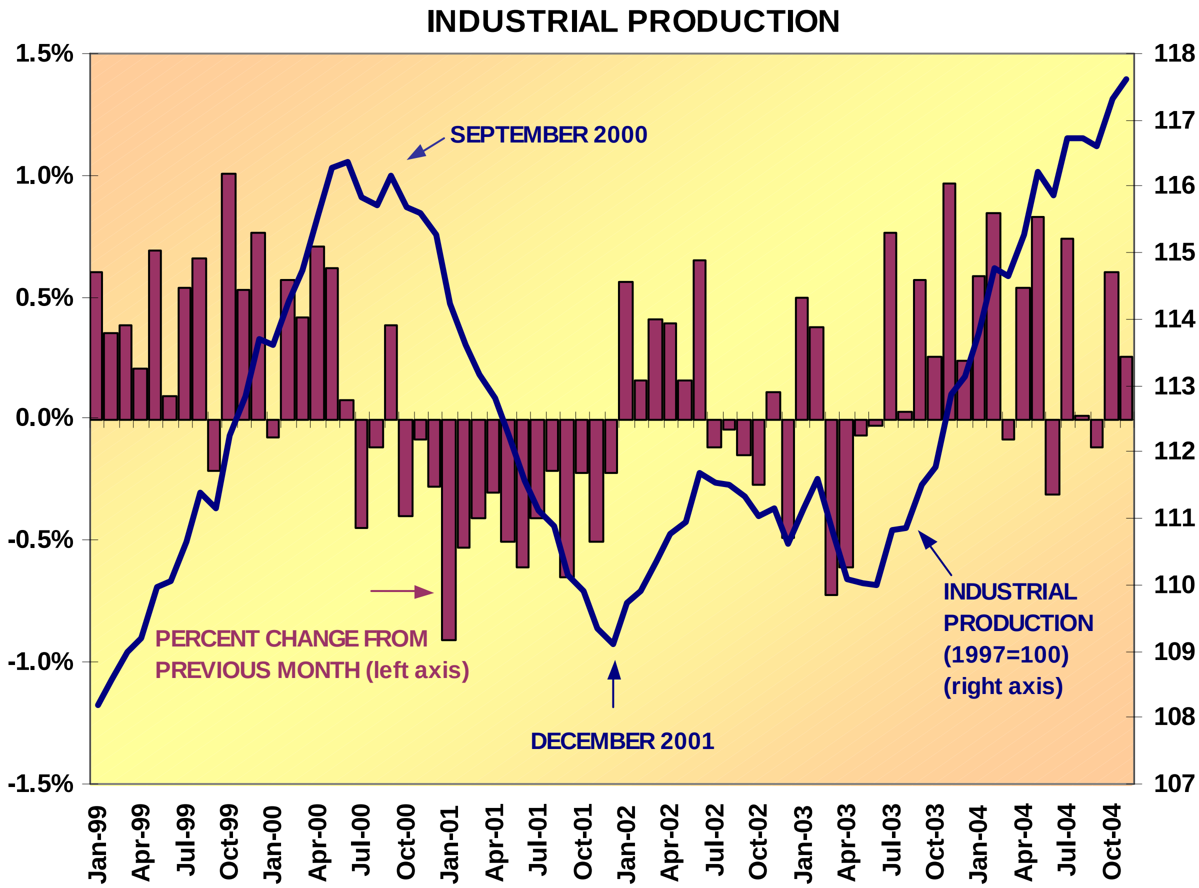
Comparing annual average data, Missouri total personal income grew by 3.1 percent between 2002 and 2003, compared to the national growth rate of 3.2 percent. Per capita personal income grew by 2.5 percent in the state between 2002 and 2003, while the national growth rate was 2.2 percent.




*Source: MERIC and U.S. Bureau of Economic Analysis*

## Manufacturing & Industrial Vitality

Industrial production in the U.S. is a measure closely linked to the manufacturing sector. Industrial production began to drop after September 2000 and fell continuously for more than a year before bottoming out in December 2001.




*Source: Federal Reserve Board*

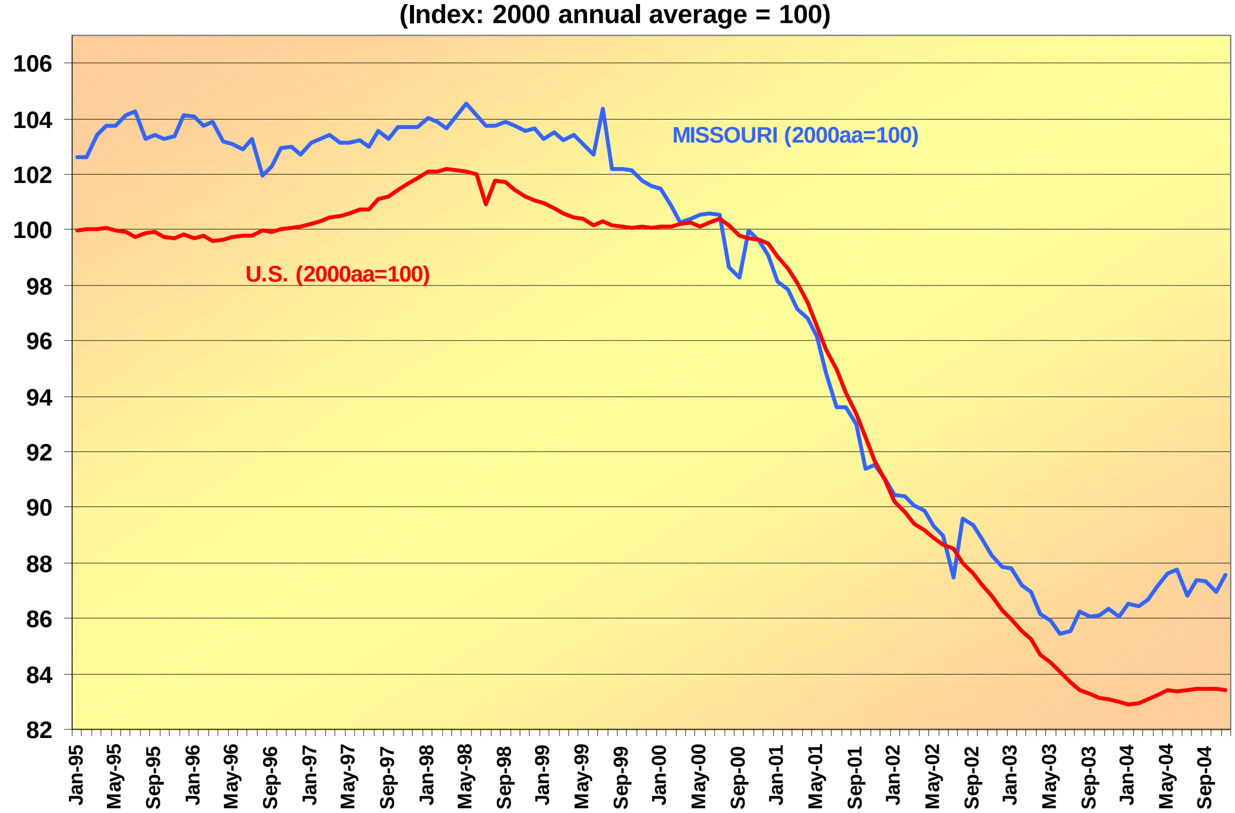
Gains occurred during the first half of 2002, as the economy seemed to be resuming growth. This situation did not last, however, as production began to slip again, continuing downward for about a year. As a whole, industrial production has been growing since June 2003. Back-to-back increases in October and November of this year give some hope that the slowdown that occurred in the middle of the year may be over. The current level is now higher than the previous peak reached in the middle of 2000.

Manufacturing employment should move somewhat consistently with industrial production, although there could be some lag between increased production and rising employment. In particular, productivity gains have made it possible for manufacturers to increase output while holding employment constant or even shedding jobs.

The behavior of manufacturing employment over the past six years or so can be grouped into three time periods. Employment peaked in mid-1998, nearly three years before the beginning of recession. This was a troublesome sign for the economy, leading to slower economic and employment growth, which gradually affected other sectors. Employment then edged down until early 2001, which characterized the first period. The second period was marked by sharply falling employment and lasted from early 2001 through mid-2003. This was the period of the recession and its aftermath. Plummeting manufacturing employment contributed to the recession and held down growth following the official end of the recession.

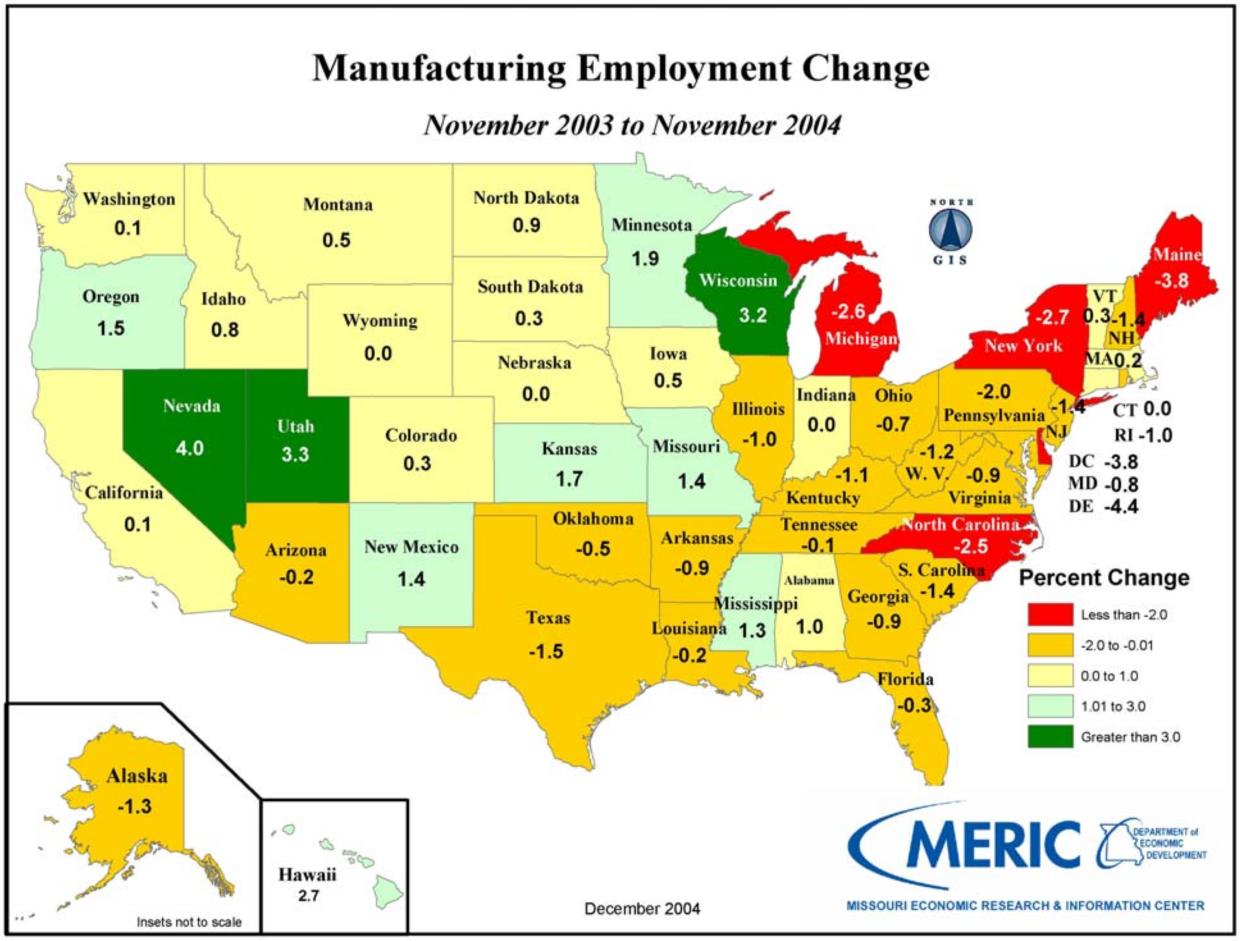
In mid-2003, the manufacturing sector began to stabilize. Employment decreases began to slow at the national level, while Missouri manufacturing actually began to add jobs. This marked the beginning of the stronger economic growth that has more recently become sustained employment growth. As production growth continues, factories should be adding more jobs, with wider employment growth occurring as well.

**U.S. AND MISSOURI MANUFACTURING EMPLOYMENT**
**(Index: 2000 annual average = 100)**




*Source: MERIC and U.S. Bureau of Labor Statistics*

With the recent improvements, manufacturing employment in Missouri is now 7,600 jobs (2.5 percent) higher than at the June 2003 low point. Growth has resumed in most industries, in both the durable and nondurable goods sectors. Missouri manufacturing is a bright spot in the overall economic picture. Over the past year, Missouri's employment growth has been third highest in the nation and the percentage increase has been eighth best.

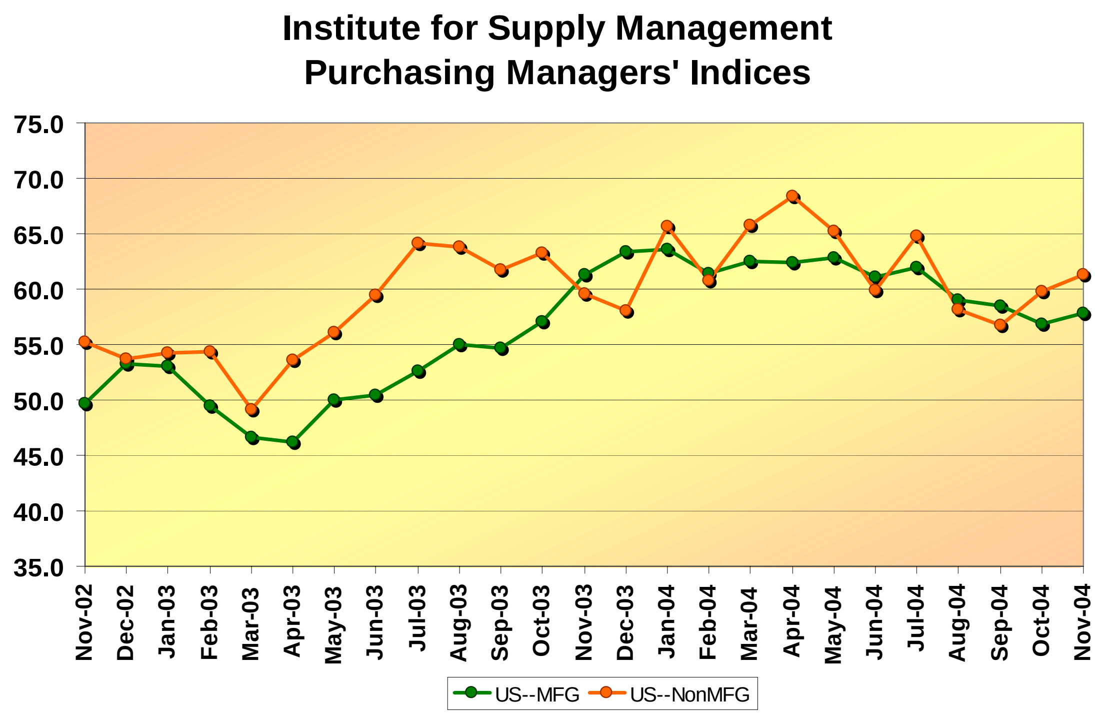



*Source: U.S. Bureau of Labor Statistics*

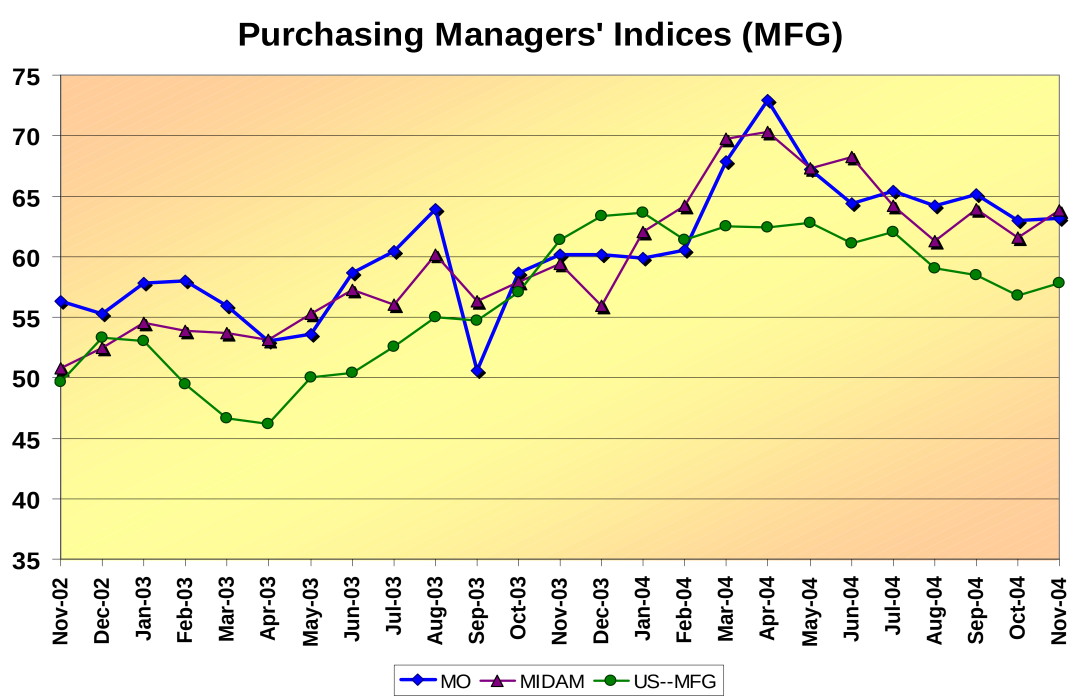
## Purchasing Managers' Index

Missouri's Purchasing Managers' Index (PMI) increased slightly in November. The state's PMI score improved to 63.2 from 63.0 in October according to the monthly *Mid-American Business Conditions Survey*, conducted by Creighton University, Omaha, NE. Missouri's score has remained above the critical 50 mark for 34 consecutive months and has been above 60 since February of this year.

Economists consider the index, which measures such factors as new orders, production, supplier delivery times, backlogs, inventories, prices, employment, import orders and exports, a key economic indicator. Typically, a score greater than 50 indicates an expansionary economy, while a score below 50 forecasts a sluggish economy for the next three to six months.




The national PMI for manufacturing industries was up slightly in November, increasing to 57.8 from 56.8 in October. This month's reading stops the recent downward trend in the index and marks the 18th consecutive month of expansion in the U.S. manufacturing sector. The nation's PMI for non-manufacturing industries grew for the second straight month in November, up 1.5 points to 61.3. This is the first time the index has been above 60 since July.

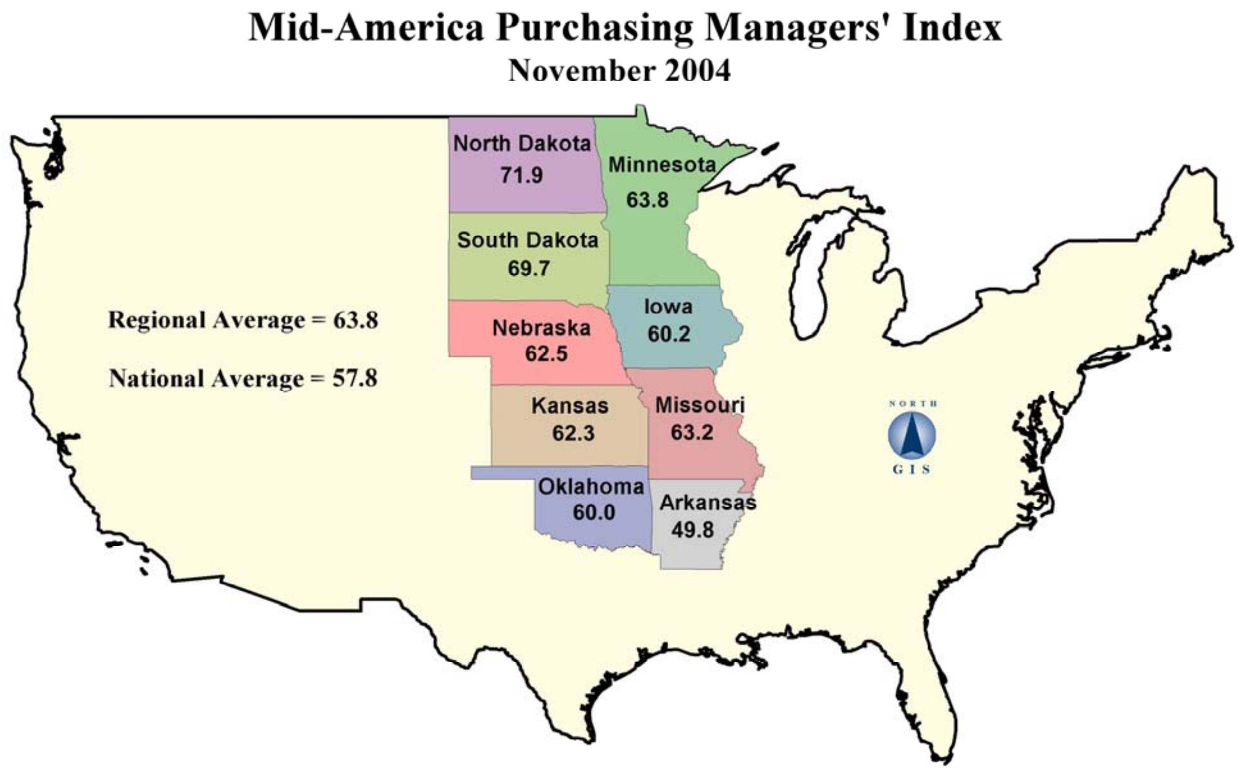



*Source: Institute for Supply Management and Creighton University*

Missouri's November PMI score was above 50 for the 34th straight month. The state had strong scores in production (71.2), new orders (66.7) and employment (60.8).

Other states in the survey include North Dakota (71.9), South Dakota (69.7), Minnesota (63.8), Nebraska (62.5), Kansas (62.3), Iowa (60.2), Oklahoma (60.0), and Arkansas (49.8).

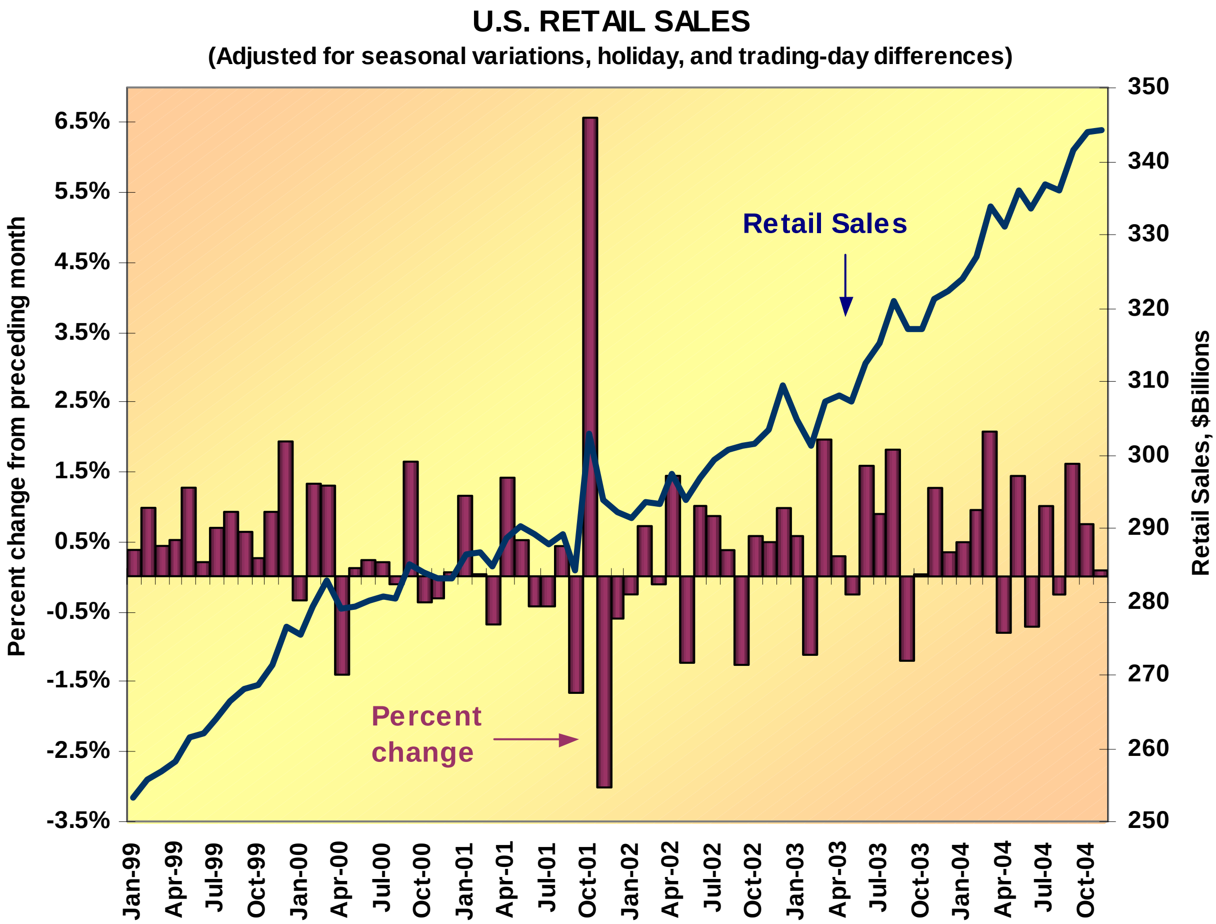
Overall, the average for the Mid-America Region increased to 63.8 in November from 61.6 in October.




*Source: Creighton University, Mid-American Business Conditions Survey*

## Retail Trade and Taxable Sales

There have been considerable swings in retail trade since the end of the recession, with weather, varying automobile sales and fluctuating gasoline prices contributing to these swings. There have been no back-to-back decreases in retail trade since early 2002. Beginning in mid-2003, sales began to move more consistently upward.




*Source: U.S. Census Bureau*

Earlier on, tax rebates and cash from residential refinancing contributed to improving retail sales. Larger tax refunds than usual, the result of income tax cuts being retroactive to the beginning of 2003 while withholding was not reduced until the middle of the year, contributed to stronger sales last spring. These special factors have receded. At the same time, automobile sales have slowed, and higher energy costs have cut into cash available for spending. These factors have tended to pull retail sales growth down somewhat. The past three months have shown over-the-month gains but at decreasing rates of growth. With the prospect of falling energy prices and growing employment, retail sales might improve over the year.

While no specific retail sales data are readily available for Missouri, total taxable sales as measured by the Missouri Department of Revenue (DOR) can serve as a proxy measure. Retail sales account for approximately 70% of taxable sales in Missouri, with an additional 10% from wholesale trade, 10% from service industries such as hotels and amusement parks, 5% from communications industries, and 5% from other industries.

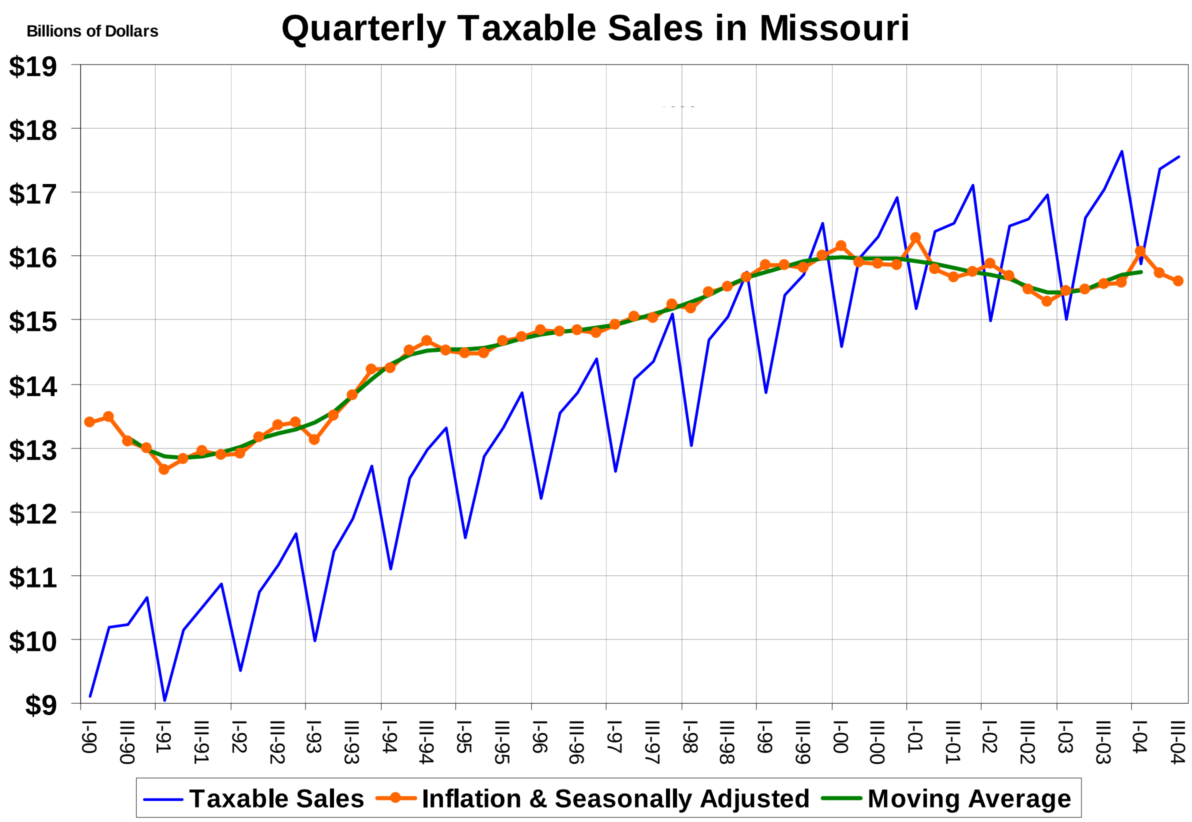
The Missouri Department of Revenue (DOR) recently released preliminary taxable sales estimates for the 3rd quarter of 2004. Over this period, $17.6 billion in taxable sales occurred in the state, an increase of 3.0% in actual dollars from the same quarter of 2003.

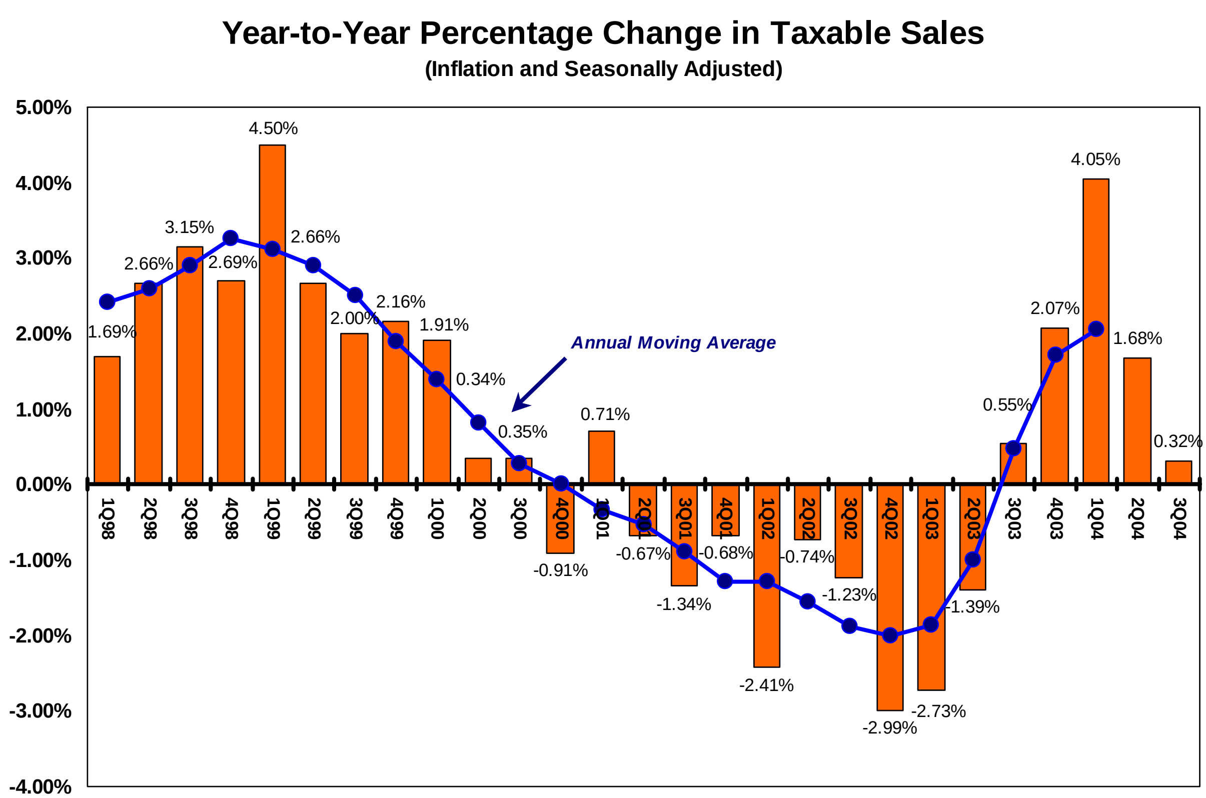
**Quarterly Taxable Sales in Missouri**

| | Taxable Sales ($B) | % Change from Year Ago | Inflation & Seasonally Adjusted ($B-00) | % Change from Year Ago (Adjusted) |
|---|---|---|---|---|
| 1Q99 | 13.9 | 6.24% | 15.9 | 4.50% |
| 2Q99 | 15.4 | 4.83% | 15.9 | 2.66% |
| 3Q99 | 15.7 | 4.39% | 15.8 | 2.00% |
| 4Q99 | 16.5 | 4.84% | 16.0 | 2.16% |
| 1Q00 | 14.6 | 5.21% | 16.2 | 1.91% |
| 2Q00 | 16.0 | 3.68% | 15.9 | 0.34% |
| 3Q00 | 16.3 | 3.87% | 15.9 | 0.35% |
| 4Q00 | 16.9 | 2.49% | 15.9 | **-0.91%** |
| 1Q01 | 15.2 | 4.13% | 16.3 | 0.71% |
| 2Q01 | 16.4 | 2.68% | 15.8 | **-0.67%** |
| 3Q01 | 16.5 | 1.32% | 15.7 | **-1.34%** |
| 4Q01 | 17.1 | 1.18% | 15.7 | **-0.68%** |
| 1Q02 | 15.0 | **-1.19%** | 15.9 | **-2.41%** |
| 2Q02 | 16.5 | 0.53% | 15.7 | **-0.74%** |
| 3Q02 | 16.6 | 0.34% | 15.5 | **-1.23%** |
| 4Q02 | 17.0 | **-0.86%** | 15.3 | **-2.99%** |
| 1Q03 | 15.0 | 0.06% | 15.4 | **-2.73%** |
| 2Q03 | 16.6 | 0.75% | 15.5 | **-1.39%** |
| 3Q03 | 17.0 | 2.78% | 15.6 | 0.55% |
| 4Q03 | 17.6 | 3.99% | 15.6 | 2.07% |
| 1Q04 | 15.9 | 5.90% | 16.1 | 4.05% |
| 2Q04 | 17.4 | 4.58% | 15.7 | 1.68% |
| 3Q04 | 17.6 | 3.04% | 15.6 | 0.32% |

*Note: Taxable sales estimates are now adjusted to year 2000 dollars.*

Analysis by MERIC shows that if seasonal and inflationary effects are removed from the data, real year-to-year growth in taxable sales during the 3rd quarter of 2004 was 0.32%. This shows slower growth than in previous quarters, but remains positive. The state has experienced year-over-year growth in taxable sales for the last five consecutive quarters.



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## Holiday Retail Sales

Retail sales during the holiday period represent an important measure of economic activity. They are of obvious significance to the trade sector, with many retailers depending on these sales for a substantial portion of their annual activity. Sales tax revenue generated by these sales are also important to state and local governments. And sales at this time of year provide a very tangible measure of consumer sentiment.

Forecasters are generally expecting holiday sales to be better than last year's. Typical forecasts call for an increase of 3 to 5 percent from last year's spending. The National Retail Federation is forecasting an over-the-year increase of 4.5 percent. The International Council of Shopping Centers (ICSC) is expecting a slightly lower increase of around 3 to 4 percent, which would be at or below last year's increase of 4.0 percent.

Recent reports on the holiday shopping season indicate mixed results so far. The ICSC-UBS Weekly U.S. Chain Store Sales Index showed a 1.6 percent increase in sales for the week ending December 18, with an over the year increase of 3.5 percent. However, ShopperTrak reports that sales for the weekend before Christmas (December 18 and 19) actually fell 3.3 percent compared to the same period last year.[2] However, the National Retail Federation is maintaining its original forecast of 4.5 percent growth in holiday sales in 2004, as November sales increased 4.7 percent from last year in the GAFS category (general merchandise stores, clothing and clothing accessories stores, furniture and home furnishings stores, electronics and appliances stores, and sporting goods, hobby, book and music stores).

Shoppers still have time to influence retail sales this holiday shopping season.[3] The National Retail Federation estimates that up to 20 percent of holiday sales will occur the week before Christmas, with the week after the holiday making up 10 percent of total sales. According the NRF annual survey, about 12 million consumers had not started their shopping as of December 19. Consumers that have been shopping have spent an average of $511.77 on the holidays this year.[4]

Reports of total retail sales may also be delayed this year with the increased popularity of gift cards. Companies that issue gift cards do not record the value as a sale until the gift card is redeemed, which may delay the actual results of the holiday season until January or February of 2005. The National Retail Federation survey found that 74.3 percent of consumers are expected to buy gift cards this year, spending over $17.3 billion.[5]

In support of consumer spending this holiday season, consumer confidence reports for the first half of December indicate improving sentiment. Gasoline price declines in recent weeks may also lift the mood of consumers. Although, with the changing trends in consumer shopping, such as gift cards and the expansion of sales after Christmas, a more accurate view of 2004 holiday retail sales will not be available until early 2005.

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[2] ShopperTrak RTC Corporation's National Retail Sales Estimate (NRSE). December 20, 2004.
[3] The holiday shopping season is 29 days, the longest since 2001.
[4] National Retail Federation. 2004 Holiday Consumer Intentions and Actions Survey. December 20, 2004.
[5] National Retail Federation. "More Consumers Reach for Gift Cards this Holiday Season." November 18, 2004.

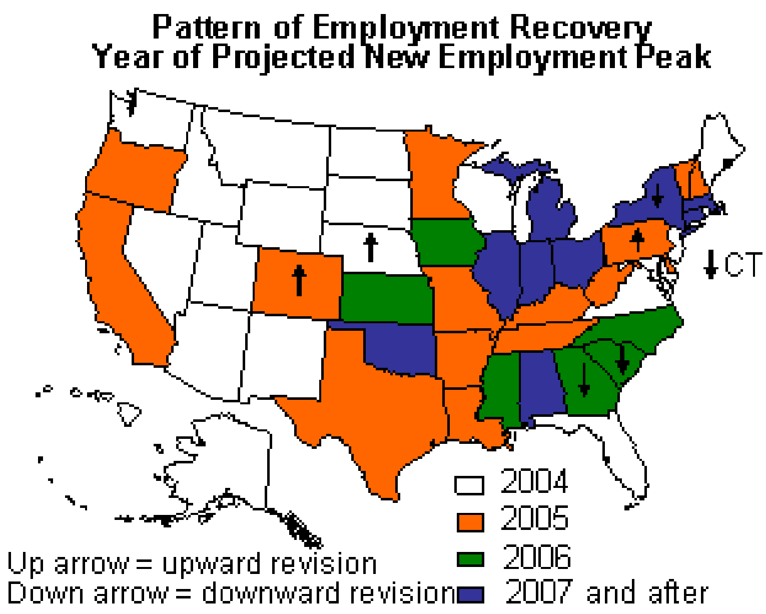
# Conclusions

The recession has officially been over for three years, and GDP growth has been very strong in the past year and a half. Recessionary conditions in Missouri have lifted as well, being replaced by a surging economy. Employment has been increasing in the U.S. since last summer, and more states are seeing improvement.

Missouri employment has increased more rapidly than national employment since July 2003, increasing by 50,100 jobs, or 1.9 percent. Manufacturing has been a strong point, with the state's employment growth being the 3rd highest in the nation over the past year.

The growth in employment has not been without some bumps, however. Except for a temporary surge of employment in June, employment had been fairly flat during the summer and early fall months. Solid gains in two of the past three months seem to suggest that employment expansion in Missouri is now broad and lasting. The increase in the state's unemployment rate over the past few months represents a cloud on what is otherwise a sunny economic picture, but at the moment this does not appear to be a major problem.

The state's economic and labor market conditions in the next year will be largely dependent on national conditions. In general, a strong economy is forecasted for next year. Although GDP growth may be slower than in 2004, employment growth is expected to be higher. The strong productivity growth that has occurred during the recovery and expansion may slow somewhat and businesses will meet increased demand by adding workers.




*Source: Economy.com*

Missouri employment growth is expected to continue to be strong. One forecast calls for 1.7 percent employment growth in Missouri in 2005, consistent with the anticipated national growth rate.[6] A recent survey by Manpower Inc. indicated that state employment growth would outpace the rest of the Midwest in the first months of 2005.[7] Twenty-three percent of Missouri employers surveyed indicated that they plan to add jobs in the first quarter of 2005, compared to just 21 percent for the Midwest as a whole. Particularly strong job growth for early 2005 is expected in Kansas City, Springfield and Central Missouri. Growth of this magnitude in 2005 should be sufficient to help lower unemployment over the period.

Among the factors expected to influence national and Missouri economic conditions over the next year are energy prices, interest rates, and the value of the dollar.

At present, some decline in energy prices seems more likely than further increases. This would occur if global energy production continues to accelerate, domestic inventory builds further, and the winter weather remains mild. Decreasing expenditures on fuel and other energy items will result in more cash available to spend on other items for both businesses and consumers. Manufacturers and transportaion-related industries would especially benefit from continued declines in energy prices.

However, higher energy prices in the form of both gasoline prices and home heating costs would discourage consumers, particularly those with lower incomes. Additional weight on consumer spending would occur if interest rates continue to climb. Government incentives such as tax cuts and low interest rates have helped boost consumers in the past. The stimulus provided by these economic policies are now diminishing. The possibility of slow wage growth, rising retail prices, and high household debt could further restrict consumer spending in 2005.

Higher interest rates are of particular concern to the auto-producing centers of the Midwest where inventories are quickly rising. Automobile sales have been slowing, with minor cutbacks in production. Additional cutbacks could reduce employment in both automobile assembly and suppliers to the auto industry…both major parts of the Missouri economy. Other interest-sensitive industries may feel the affect of the expected continuing tightening of monetary policy over the next year.

Finally, the decline in the value of the dollar in international markets helps regional economies that are supported by the production of export goods, international tourism, and defense spending. Depreciation of the dollar makes some import items more expensive but would encourage exports, which could be a source of strength for manufacturers of industrial equipment and other capital goods. So far, the drop in the dollar appears to have been helpful to Missouri's economy.

[6] Economy.com, "U.S. Regional Outlook," December 15, 2004.
[7] Manpower Inc, "Manpower Employment Outlook Survey," December 14, 2004.

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